Report for the Year Ended December 31, 1972

MURPHY
OIL CORPORATION

1972 Annual Report
Murphy Oil Corporation

200 Jefferson Street
El Dorado, Arkansas 71730

Cover and Facing Page

Murphy's integrated oil operations ● Exploration and ● Production, ● Refining and ● Marketing, and its two major diversifications ● Contract Drilling and ● Timber and Farm Products — involve locations in a number of areas around the world.

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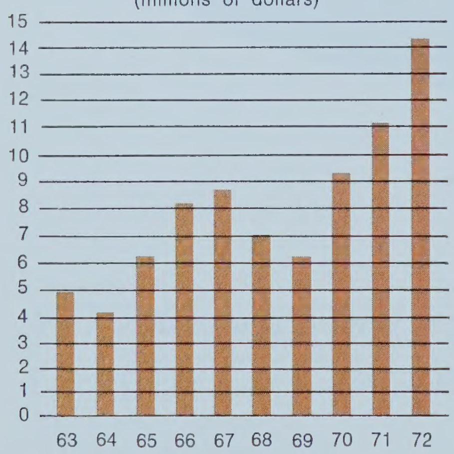
Contents

1972 Highlights

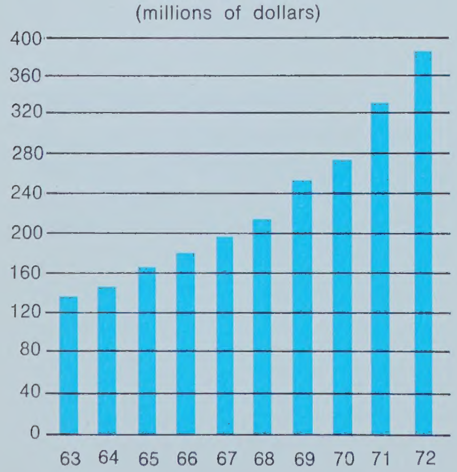
	1972	1971
FINANCIAL		
Revenues	$386,909,000	328,584,000
Income before extraordinary items	14,306,000	11,100,000
Per Common and Common equivalent share	2.47	2.01
Net income	14,278,000	11,100,000
Per Common and Common equivalent share	2.47	2.01
Cash flow	47,008,000	38,804,000
Dividends paid:		
Preferred and Preference Stock	1,062,000	1,100,000
Common Stock	3,213,000	2,966,000
Common Stock dividends per share	0.60	0.60
Capital expenditures	128,202,000	66,306,000
Funds provided by operations	59,324,000	48,302,000
Depreciation and depletion	25,762,000	22,501,000
Working capital	67,424,000	83,400,000
Long-term debt	153,557,000	102,911,000
Total assets	567,847,000	492,123,000
Stockholders' equity	187,524,000	178,539,000
STOCKHOLDERS AND EMPLOYEES		
Common stockholders—end of year	4,833	5,322
Common and Common equivalent shares—average outstanding	5,385,879	4,976,148
Employees—end of year	2,992	3,250
Salaries, wages and benefits	$ 35,874,000	33,017,000
OPERATING (Barrels a day except gas)		
Crude oil and gas liquids produced	49,500	45,000
Gas sold (thousand cubic feet a day)	66,200	65,100
Refinery runs	72,300	64,000
Petroleum products sold	146,600	128,700

Cash flow is net income plus depreciation and depletion, amortization of undeveloped acreage costs, geophysical expense, dry hole contributions, dry holes, abandonments and deferred and noncurrent income taxes; minority interests are eliminated.

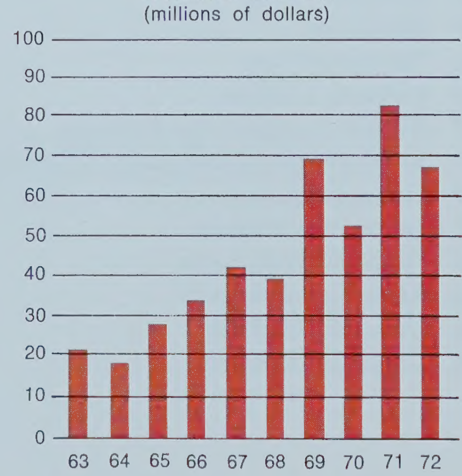
CONSOLIDATED INCOME BEFORE EXTRAORDINARY ITEMS
(millions of dollars)

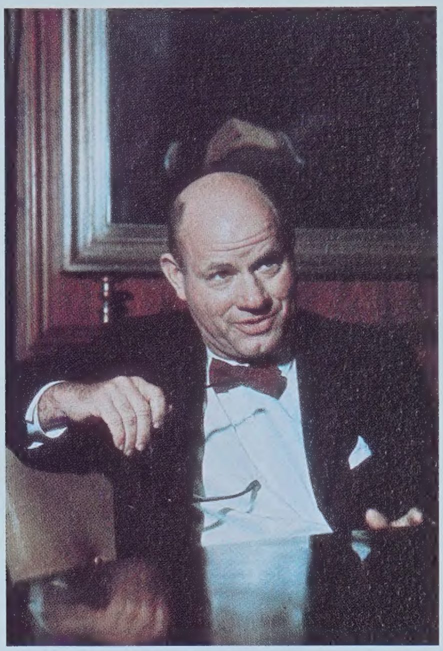


GROSS REVENUES
(millions of dollars)

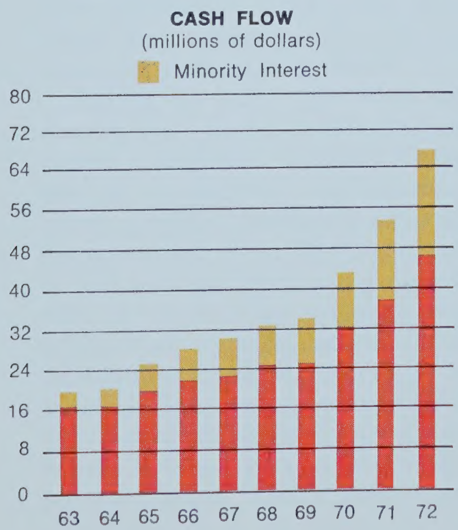


WORKING CAPITAL
(millions of dollars)





C. H. Murphy, Jr.,
Chairman of the Board



To The Stockholders

Nineteen seventy-two was a better year than we could reasonably have expected at its beginning. Net income and cash flow rose rather sharply to record levels; crude oil production, refinery runs, and refined product sales all advanced, and important additions were made to our portfolio of undeveloped acreage.

In this report a year ago we said, in looking to 1972 and beyond, that earnings were likely to lag during the first half and that thereafter capital additions, which were for new oil production, expanded refining capacity, additions to the contract drilling fleet, and greater lumber production, should lift earnings modestly if tempo of general business were to be sluggish and to new highs should our own expansion coincide with an upturn in the business cycle.

As it developed, the upturn in the U. S. A. was the most vigorous in over a decade and also became strong in Europe later in the year. Hence the lag in Murphy's earnings was short, and the subsequent acceleration was brisk across the wide front of our business throughout the last half of the year.

Major construction projects at the refineries were completed during the third and fourth quarters, and the resulting additional, more sophisticated capacity came on stream without mishap. The expansion at Meraux, Louisiana was the first step in a program to enlarge the refinery and, later, to equip it to process foreign as well as domestic crude oil. It is now clear that imported oil will be required on the Gulf Coast earlier and in larger volume than expected only a few months ago. It is necessary then, and desirable, to accelerate the schedule for equipping Meraux to handle the wide range of crude oils in the world market in addition to low sulfur local crudes. Murphy has already joined with other refiners of the New Orleans area to lay plans for a crude oil port some miles at sea which will be capable of discharging the largest tankers afloat.

The coincidence of enhanced Murphy capability in most of our operations with a cyclical upswing

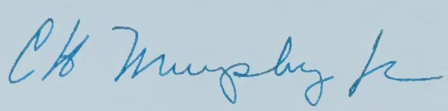
in business still prevailed at year-end. Extraordinarily strong seasonal demand for fuels is superimposed on both. Moreover, early 1973 sales of finished petroleum products and lumber will be produced mostly from raw materials that entered our integrated supply system at 1972 costs. All of this, it follows, augurs well for continuing good earnings in the early months of 1973.

Looking farther ahead, cost of Persian Gulf crude, whether purchased or proprietary, automatically escalated on January 1, this year, under terms of the Tehran settlement of February, 1971, and cost of one of the other crudes under an important supply agreement will further increase on that contract's anniversary in April. In addition the February 12,1973, devaluation of the U. S. dollar will trigger a further cost increase under the terms of the Geneva Agreement. These higher costs will be felt at about the time demand for fuel falls off seasonally. Accordingly, it must be plain that the recent and current surge in net income is not likely to be sustainable over time. Whether a dip is merely seasonal or is deeper will depend upon our ability to recover higher crude costs in the refined products market and on our continued success in controlling operating expenses.

We record with sorrow the death on October 7, 1972, of our esteemed director of Houston, David T. Searls. He was a source of wise counsel and steady support to the Board and officers. Those contributions are being sorely missed.

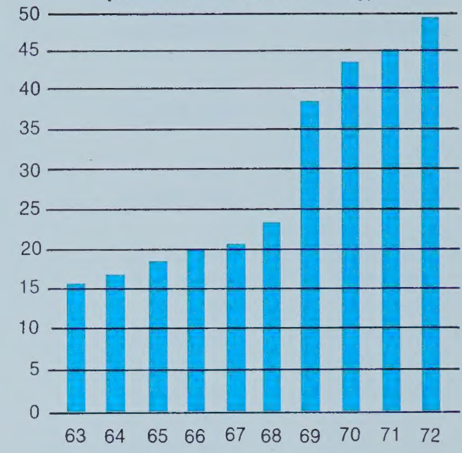
Robert J. Sweeney was elected president and chief operating officer following the annual meeting in May. The writer became chairman of the board and retained the responsibility of chief executive officer. J. A. O'Connor, Jr., formerly chairman of the board, was elected chairman of the executive committee.

Mr. Sweeney, age 45, educated in engineering physics, joined the Company in 1952 as a petroleum engineer. He served successively as chief engineer, vice president for production and exploration, and chairman of the operating committee. For three years before returning to El Dorado, he was president of Murphy Eastern Oil Company in London and as such was responsible for our integrated operations in Europe, Africa, and the Middle East.

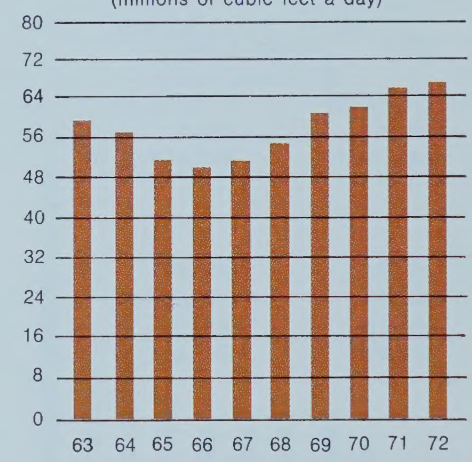


Chairman of the Board
March 6, 1973

NET CRUDE OIL AND GAS LIQUIDS PRODUCTION
(thousands of barrels a day)



NET NATURAL GAS PRODUCTION
(millions of cubic feet a day)



Operating Review

SIGNIFICANT EVENTS

Significant operating events of 1972 were:

- Important exploration acreage was added to the Company's holdings in the Gulf of Mexico and in the North Sea
- Net Persian Gulf production attained a rate of 25,000 barrels a day
- Refinery throughput capacity was increased to 105,000 barrels a day
- Marketing organization was realigned and marginal outlets eliminated in U. S.
- Largest drilling barge construction program in Company's history was started

Robert J. Sweeney Jr., President

Development drilling in Lake Como Field

EXPLORATION AND PRODUCTION

Crude oil and gas liquids production increased gradually throughout the year to average 49,500 barrels a day, compared to 45,000 barrels a day in 1971. At year-end, production was at the rate of 52,300 barrels a day. Most of this increase occurred in the Sassan Field in the Persian Gulf. A more modest yet not insignificant increase also occurred in Western Canada.

Natural gas production averaged 66,200,000 cubic feet a day for the year—essentially unchanged from the 65,100,000 cubic feet a day in 1971. Increased production from a newly discovered pay zone in Louisiana and some increase in Canadian production little more than offset the declines in the older inland and offshore U. S. fields.

During the year, exploration and development activities followed oft stated Company policies. These are: (a) to maintain and increase, where possible, productive capacity in established areas; (b) to continue to seek out and maintain an inventory of exploration opportunities which have a possible potential for sizable reserve additions; and (c) to maintain in our resource base bitumen sand holdings large enough to supply a large part of the Company's future North American crude oil requirements when their development becomes economically feasible.

United States

In inland United States, crude oil and gas liquids production remained unchanged at 7,400 barrels a day. Increased allowables and production from purchased crude oil reserves overcame normal declines in older fields. We purchased an interest in the newly discovered Lake Como Field, Jasper County, Mississippi. Development of Lake Como commenced immediately and was continuing at year-end.

Inland United States exploration activity was concentrated in the Jurassic trend of Mississippi and Alabama and south Louisiana. No commercial discoveries were made.

Inland United States natural gas production increased from an average of 24,800,000 cubic feet a day to 29,200,000 cubic feet a day. This increase was from five completions in a newly discovered producing zone in the Sligo Field, Bossier Parish, Louisiana.

Offshore United States in the Gulf of Mexico, Murphy's production and exploration activities are conducted mainly through its 51-percent-owned subsidiary, Ocean Drilling & Exploration Company (ODECO).

For 1972, net crude oil and gas liquids production averaged 9,600 barrels a day, down from 10,000 barrels a day the previous year. This decline was the result of newly discovered or developed production and increased allowables failing to offset production declines.

Net production of natural gas in the Gulf of Mexico decreased from 29,700,000 cubic feet a day in 1971 to 25,800,000 in 1972 due to production declines in older fields.

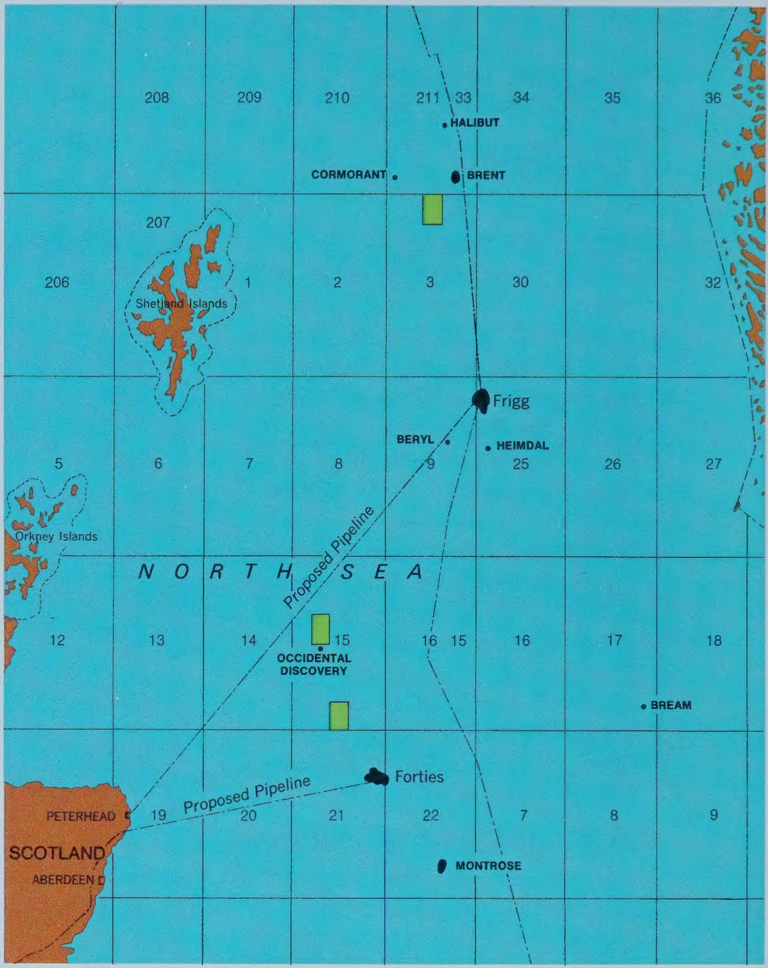
Development drilling continued in the Ship Shoal Block 113, South Pelto Block 20, and Ship Shoal Block 224 fields where a total of 15 oil wells were completed.

Block 224 is a combination oil and gas field being developed by directional drilling from fixed platforms. It should come on stream in late 1973.

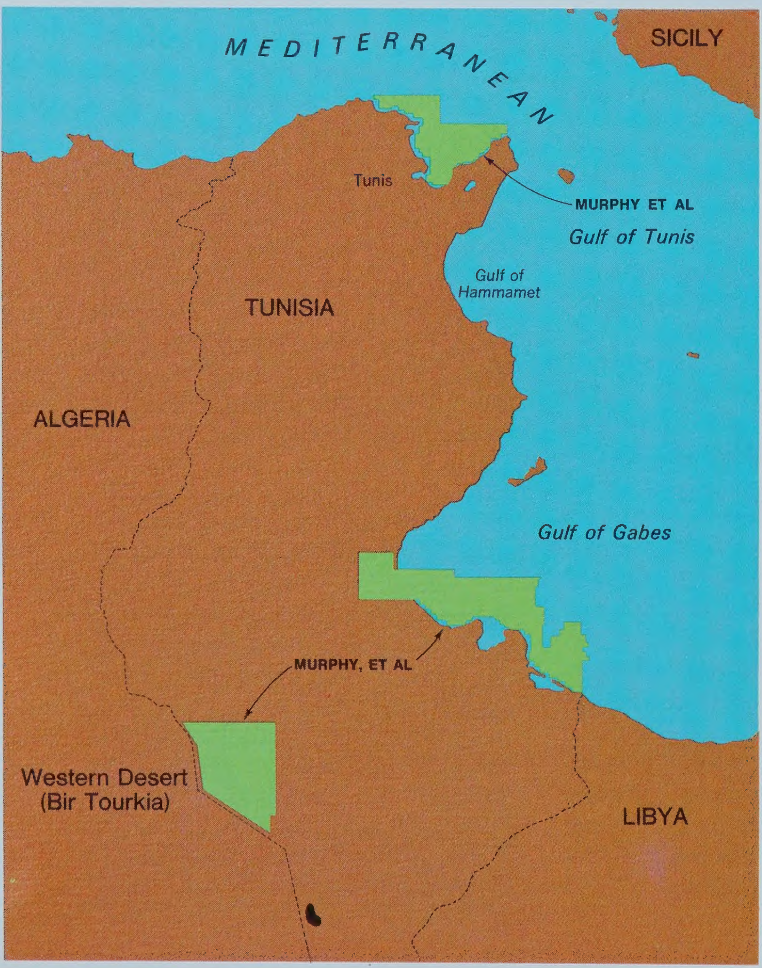
Important acreage additions were made in the Gulf of Mexico during the year by successful bidding at Federal lease sales.

In the eastern Louisiana September sale, our bidding group spent $383,850 to purchase only one 5,000-acre lease, Block 124 West Delta. Murphy has a consolidated 30.2-percent interest in this lease.

Lease blocks purchased at Federal offshore Louisiana lease sale December, 1972



Blocks on which licenses were granted to Murphy, et al in 1972



Evaluation of seismic reconnaissance progressed North Africa

Area of seismic option interest in production sharing contract

Gulf of Mexico production facilities

We were much more successful in the second sale in which the government received a record of $1.6 billion. ODECO and its partners, including Murphy as a direct participant, won five blocks aggregating 25,000 acres at a total cost of $93.3 million. Four of these leases (Blocks 170, 249, 250 and 258) are in the South Marsh Island area and one, Block 351, is in the East Cameron area of the western Louisiana coastline. Murphy's net effective financial interest in these five blocks varies from 6.6 percent to 21.9 percent.

Canada

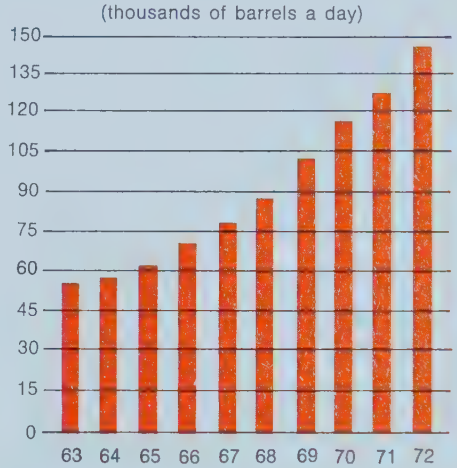
Canadian net crude oil and gas liquids production increased from an average of 5,200 barrels a day in 1971 to 6,200 barrels a day in 1972. At year-end, Canadian production was averaging 6,600 barrels a day, compared with 5,900 barrels a day at the beginning of the year. Most of the production increase is attributable to the first full year's production from properties purchased in mid-1971 and to new oil resulting from development drilling in the heavy oil areas of Alberta and Saskatchewan near Lloydminster and along the Company-owned Lone Rock–Kerrobert Pipeline. Also reserves were added by drilling at Medicine River in central Alberta and in the Cessford and Hays areas of south central Alberta.

Net production of natural gas averaged 11,200,000 cubic feet a day in 1972. In 1971, net gas production averaged 10,600,000 cubic feet a day.

The Company's mainland holdings of exploratory acreage range from the southern borders of Saskatchewan and Alberta northwesterly to the Arctic Circle in Yukon Territory. This extensive spread includes varying interests in around 527,000 acres, accumulated over some years, in the area of heavy oil deposits. Drilling has indicated several hundred million barrels of oil in place under these lands. In part of the area as much as 10 percent of the oil in place can be recovered by orthodox methods and is referred to above. Elsewhere the deposits seem to be susceptible to much greater recoveries by thermal methods which, though sophisticated, are within present state of the art. Our first pilot program in that category is just getting under way at Silverdale. Finally, research is being undertaken to determine the most promising approach to recovery of the largest portion of the reserve, which is wholly inert and lies to the north near Cold Lake.

Murphy continues to hold a 10.5-

REFINED PRODUCT SALES
(thousands of barrels a day)



Seismic crew on
Victoria Island in the Arctic

percent interest in 103,375 acres in the Athabasca Tar Sands. Fluor Corporation has been engaged to conduct a study to determine the best mining, extracting and transporting system for their exploitation.

Exploration continued in the Arctic Islands aimed at an evaluation of 5,355,000 gross acres of permits in which the Company is earning a half interest.

Early in 1972, Murphy sold a third of its 37.5-percent interest in permits off the eastern shore of Nova Scotia and, in addition to a cash consideration, the new partner agreed to fund $750,000 of Murphy's exploration obligations.

Iran

Gross crude oil production from the Sassan Field in the Persian Gulf averaged 168,000 barrels a day. Two in-fill wells were completed and two previously drilled wells were recompleted to increase capacity. These operations, together with the completion of the desalting and crude stabilization plant at the Lavan Island terminal, permitted the field to produce at the 200,000-barrel-a-day level during the last two months of the year.

Two exploratory wells were drilled in other concession areas of the Persian Gulf. Both were dry. However, one confirmed the feasibility of developing the "W" structure partially defined by earlier drilling.

Venezuela - Libya

Net Venezuelan crude oil production averaged 3,000 barrels a day versus 3,200 in 1971. In Libya, net production decreased from 2,300 barrels a day in 1971 to 2,200 barrels a day.

North Sea

The Company participated in one exploratory well in the British North Sea. This well, on a structure since designated "Amethyst," tested gas at 18,000,000 cubic feet a day. Confirmation drilling is planned for 1973.

The most significant 1972 addition to Murphy's inventory of exploration acreage occurred in oil-prone areas off Scotland in the North Sea. The Company is a member of a group which was granted a license covering blocks 3/3, 15/12 and 15/28, totaling 157,215 acres. Important discoveries have been made in blocks adjoining two of the new blocks. The Company's net effective financial interest is 15 percent. Testing of these blocks should commence midyear 1973.

The Company has an 18.875-percent net effective financial interest in an existing license in Norwegian waters. No new developments occurred on this license.

Australia-New Zealand

Offshore Western Australia, ODECO drilled a dry hole on License WA26 which covers 3.4 million acres and in which it has an 11.25-percent interest. In New Zealand, the area of interest is being restudied.

Tunisia

Interpretations of reconnaissance seismic surveys conducted in 1971 were completed, and detailed followup work in the offshore permits indicated drillable prospects. Temperature extremes, dust storms and rugged terrain caused seismic survey of the Bir Tourkia inland permit to go more slowly.

Other Areas

Exploration in newer areas of interest continued throughout the year.

Murphy, ODECO and ODECO's 51-percent-owned subsidiary, Ocean Oil & Gas Company, took a farmout off the coast of Gabon, West Africa. The initial test produced, on varying chokes, from 800 to 1,800 barrels a day. This well earned Murphy a net effective financial interest of 27.5 percent in 12,500 acres offshore Port Gentil. Evaluation of this prospect was in progress at the end of the year.

ODECO negotiated a seismic option interest of 25 percent of a production-sharing contract in the Indonesia area during the year. This contract applies to Block E covering about 20,000,000 acres along the south coast of West Irian, New Guinea. A 2,000-mile seismic survey was completed in 1972 and another is planned for 1973.

Expanding Meraux reformer area facilities

As the year ended, a group including Murphy and ODECO was continuing negotiations with the government of Portugal for offshore concessions along Portugal's Atlantic coast. Murphy is the leader of a group which has filed an application for an exploration license covering 4,000,000 acres in the Republic of Mali, Northwest Africa.

MANUFACTURING

Crude oil refined in 1972 averaged 125,400 barrels a day, compared with 114,300 barrels a day in 1971. Of the total, 53,100 barrels a day were processed for Murphy's account at refineries of others—19,900 barrels a day at Montreal and 33,200 barrels a day in Sardinia. Throughput averaged 40,700 barrels a day at Murphy's Meraux, Louisiana refinery and 31,600 barrels a day at our Superior, Wisconsin refinery.

Major construction projects were completed at the U. S. refineries.

At Meraux, a new crude oil distillation unit has increased throughput capacity from 35,000 to 70,000 barrels a day. Also, a newly added reforming unit is capable of converting all the low-octane naphtha in the crude stream to high-octane gasoline.

A complete revision of the Meraux refinery fuel system was under way to enable it to use residual oil for fuel when natural gas is no longer available after April 1973.

The decline in domestic crude oil reserves has made imperative the capability of receiving foreign crude at Meraux on a regular schedule. To that end, 400,000 barrels additional storage was under construction at year-end.

At the Superior refinery, a naptha-reforming unit was installed to improve octane-producing capabilities. This unit and the one added at Meraux will be required to provide unleaded gasoline capacity called for in 1974 by Federal regulations.

A large portion of the capital expenditures, for example, a sulfur removal unit at Superior, was for air and water conservation.

In May 1972, United Refining Ltd., a company owned jointly by Murphy and Ente Nazionale Idrocarburi (ENI), the Italian Government-owned company, submitted a revised application for a permit to construct a 100,000-barrel-a-day refinery on Canvey Island on the Thames estuary near London. Public hearings were held in January 1973.

MARKETING

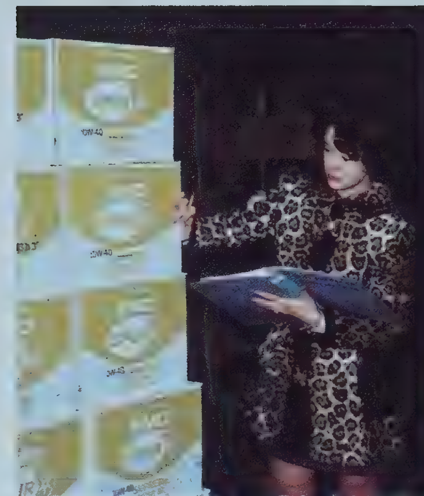
Record volumes of refined petroleum products were sold in all areas in which the Company markets, despite shutdown of about 135 uneconomical service stations in the U. S. A. Sales averaged 146,600 barrels a day, compared to 128,700 barrels a day in 1971.

United States

Profitability of refining and marketing in this country is unsatisfactory, as a generality and in Murphy's specific case. Far-reaching measures in response to this situation were commenced in 1972. Every retail outlet failing to meet a strict standard was earmarked for improvement where possible and prompt elimination where improvement seemed unlikely.

Administrative and data processing costs make credit card sales unprofitable, a burden we have carried for convenience to customers,

Sulfur extraction facilities at Superior



A new Murphy sales representative

Recently completed service station specifically designed for self-service

reasons of prestige, and the like. Widespread acceptance of bank credit cards renders the former unnecessary. We decided we simply cannot afford the latter, so our Spur credit card program was abolished.

Five marketing regions were consolidated into three and districts within the regions were combined. These steps and others, such as centralized billing, permitted reduction of 129 employees behind the front lines.

The introduction of total self-service at 100 retail outlets and partial self-service at 87 others has lowered costs and made possible a reduced selling price to customers.

It was clear at year-end that these measures are paying off. Not only had volume per station increased markedly, which would be expected, total branded volume sold through the fewer number actually rose slightly.

There was a general improvement in retail gasoline prices in late 1972. Wholesale prices of all products had also improved by the year's end. These improvements were gathering momentum early in the new year but do not yet fully reflect the combined effect of increasing demand, shortening supply of domestic crude and mounting cost of imported oil.

Total United States sales of refined products increased 11 percent during the year to an overall average of 89,000 barrels a day, compared with an average of 80,000 barrels a day in 1971. Substantially all of this increase occurred in sales of jet fuel, home heating oil and in low-sulfur residual fuel. This reflected the Company's efforts to make maximum supplies of fuel oils available to its customers during a period of increasing apprehension regarding adequacy of energy in this country.

Canada

All-time highs were achieved in Canada in sales volume, outlets served and share of the market despite price pressures during the last half of the year. Petroleum product sales averaged 20,800 barrels a day, compared to 18,200 barrels a day for 1971. Service station sales were up 25 percent, while home heat sales increased almost 20 percent.

The province of Quebec, Murphy's principal market, was particularly competitive. Crude oil costs rose as a result of higher government take in producing countries. In consequence, the marketing gross margin narrowed significantly.

Murphy's Canadian marketing distribution system expanded, particularly in the area of retail outlets. In 1973, capital expenditures will be reduced, not only because of the pressures, but to make more funds available for exploration and development.

Europe

Markets in Western Europe at year-end reflected, if not a shortage, absence of a surplus of crude oil. Prices had risen accordingly. The change arises on the supply side from nationalization in Iraq, restricted production in Kuwait and Libya and lack of development in Venezuela. The demand side was influenced by relaxation of U. S. import quotas and resumption of strong economic growth in Europe and Japan. All of this was superimposed on the steadily rising cost of crude oil according to formulae of the Organization of Petroleum Exporting Countries. These factors pushed product prices in the Mediterranean, United Kingdom and Western Europe to significantly higher levels.

Product sales averaged 36,500 barrels a day in Europe, an increase of 5,900 barrels a day over 1971.

Retail sales, all in the United Kingdom, remained essentially level with last year at 5,300 barrels a day versus 5,500 barrels a day. Margins,

Loading products at Chicoutimi Marine Terminal, Quebec

Murphy's clean products tanker "Allison Star" en route to Sardinia having discharged its cargo at Grays Terminal on the Thames

however, increased significantly as a result of a reduction in service station operating expenses and improved selling prices. Operating results also improved from elimination of short margin sales.

TRANSPORTATION

During 1972, Murphy, together with two other companies, constructed a 12-inch crude oil pipeline from the Interprovincial Pipeline terminal in Regina, Saskatchewan to Poplar, Montana, where it connected with Wesco Pipeline Co. and thence to Butte Pipeline, which is 17.5-percent owned by Murphy. This system is designed to move about 50,000 barrels a day of Canadian crude oil to refineries in the midwestern states via connections in southeastern Wyoming.

The year 1972 was the first full year of operation for the jointly-owned Lone Rock-Kerrobert Pipeline which had been completed during 1971. At the end of 1972, throughput for this line was averaging 8,400 barrels a day. A terminal and booster station was in stalled at the hydraulic mid-point of the line, almost doubling capacity and relieving cold weather problems due to low viscosity.

Recognizing the certainty that foreign crude oil will be increasingly needed to supply the future requirements of the Meraux refinery, Murphy joined with 11 other refiners to form Louisiana Offshore Oil Port. LOOP is planning a deepwater oil port 21 miles offshore the Grand Isle area with onshore terminaling facilities south of Leeville. These facilities could be operational as early as 1976.

CONTRACT DRILLING

At the end of the year, ODECO had in operation and under construction one of the largest fleets of mobile drilling rigs in the world. Eight submersible units, four jack-ups and eight semi-submersibles were in operation. One jack-up and five semi-submersibles were scheduled for completion from mid 1973 into 1974. All of the semi-submersibles under construction are of the advanced self-propelled "Ocean Prospector" class.

ODECO's shallow-water units, the submersible barges, experienced more idle time during 1972 than normal. The principal factor was the repeated postponement of Gulf of Mexico lease sales. This was eased by a lease sale finally held in September and further alleviated by the December sale. Demand for Gulf of Mexico barges had measurably improved as the year ended.

In December, ODECO purchased a jack-up unit, "Ocean 66", which has the capability of working in water depths up to 120 feet. After reconditioning and some modification, this unit should join the Gulf of Mexico fleet in the first quarter of 1973.

All of ODECO's drilling barges assigned to foreign areas were continuously employed throughout the year. The North Sea was the area of the greatest demand. Three semi-submersible units and two jack-up units were operating there at year-end.

The self-propelled, semi-submersible "Ocean Victory" joined the North Sea fleet in November after crossing the Atlantic under its own power for the first half of the voyage and with tug assistance in the rougher North Atlantic.

"Ocean Victory" at shipyard ready for sea trials

Operator at controls of Deltic's Chip-N-Saw® machine at Ola, Arkansas mill

TIMBER, LUMBER AND FARMING

Sparked by the performance of its lumber manufacturing operation and with improved prices for most of its farm products and timber, Murphy's wholly-owned subsidiary, Deltic Farm & Timber Co., Inc., significantly increased its contribution to consolidated earnings.

The crop season of 1972, as in most years, had periods of drought and periods of excess rainfall. The ultimate yields per acre, however, were as planned and about on the average of recent years.

The construction of a second lumber mill had been started at year-end. It should be completed and in operation early in 1974. The construction of this additional capacity is predicated on the favorable outlook for demand of forest products.

EMPLOYEE AND COMMUNITY RELATIONS

During 1972, a number of personnel and organizational changes were made to streamline operations and reduce operating and general and administrative costs. Total employment at year-end was 2,992, down from 3,250 at the end of 1971.

In addition to management changes described in the Chairman's letter at the beginning of this report, Jack W. McNutt was elected president and a member of the Board of Directors of Murphy Eastern Oil Company, replacing Mr. Sweeney; and B. David Richardson was elected treasurer of Murphy Oil Corporation, replacing Lee Roy Beasley, who retired after completing 20 years of valuable service.

The year brought about intensified governmental regulations and controls, especially concerning those having to do with Equal Employment Opportunity, Occupational Safety and Health, Environmental Protection and wage and salary matters.

A number of Company programs were either initiated or revised during the year. This action was motivated by an awareness of Murphy's civic responsibilities to the communities in which it resides and in response to governmental reporting requirements.

Jack McNutt, President, Murphy Eastern Oil

B. David Richardson, Treasurer

New affirmative action programs were developed, outlining the Company's goals for increasing the numbers and utilization of minority and female employees. Increased efforts and money were expended throughout the Company to make certain that increasingly strict government standards are adhered to in providing Murphy employees with a work environment compatible with health and safety. The Company's safety record continues to be significantly better than the average for the petroleum industry. Similarly, steps have been taken to eliminate or at least minimize damage to the environment whether it be air, water or noise pollution or defacing natural amenities. In this connection, service station and terminal landscaping has continued and more recently noise abatement and prevention measures and air emission sampling programs were inaugurated at the two U. S. refineries.

In 1971, Murphy Oil Corporation established a merit scholarship program, administered under the auspices of the National Merit Scholarship Corporation. Under this program, three four-year scholarships are awarded each year; firstly, to qualifying children of employees and, secondly, to merit scholarship finalists in the geographical areas in which the Company operates. Through 1972, six scholarships had been awarded, four of these to children of employees and two to area finalists.

Financial Review

EARNINGS

Consolidated net income was $14,278,000, equal to $2.47 a Common and Common equivalent share after providing $990,000 for dividends on the Preferred and Preference Stock. Fully diluted net income a share was $2.35. Included in net income was a net extraordinary loss of $28,000 which, although small in itself, was made up of three material items. First, a provision of $1,950,000 was made for the estimated loss on the disposition of certain service stations and bulk plants in the United States. Second, there was a gain of $1,225,000, the net proceeds from the settlement of a claim under a contract of affreightment. Third, there was a gain of $697,000, net of minority interests, on the sale of a small interest in Murphy's exploration permits offshore Nova Scotia.

In 1971, consolidated net income was $11,100,000, equal to $2.01 a share. Fully diluted net income a share was $1.95. There were no extraordinary items in 1971. Dividends on Preferred and Preference Stock were $1,098,000. Outstanding Common and Common equivalent shares averaged 5,385,879 in 1972 and 4,976,148 in 1971.

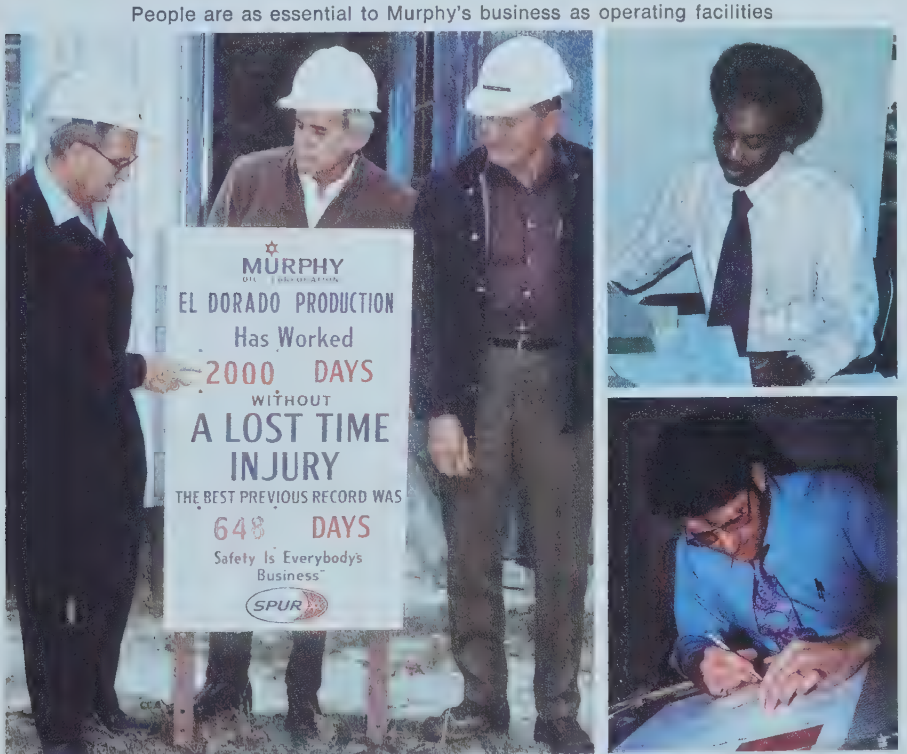
REVENUES

Consolidated gross revenues were $386,909,000, an 18-percent gain over $328,584,000 a year earlier. Sales also increased 18 percent from $275,338,000 to $324,752,000. Volumes of refined product sales averaged 146,600 barrels a day during the year, up 14 percent from 128,700. Volumes increased in all areas. They were up 12 percent in the United States, 15 percent in Canada and 19 percent in Europe. These volume increases, coupled with reasonable product prices prevailing most of the year, effected a 13-percent increase in petroleum product sales from $238,795,000 to $270,719,000. Excellent prices and lumber volume increase from a two-shift mill operation resulted in a 117-percent increase in agriculture products, timber and lumber sales at $7,836,000 versus $3,613,000. Oil and gas sales to third parties increased 19 percent, reflecting the increase in average crude oil and gas liquids produced.

Drilling and other operating revenues grew from $46,577,000 to $52,840,000, a 13-percent increase. This increase was due to a steady demand for the semi-submersible drilling barges and a firm rate structure. In addition, one new barge, "Ocean Tide," joined the fleet late in 1971 and operated for a full year in 1972 and the "Ocean Victory" was added near year-end.

Interest and other income increased to $9,317,000 from $6,669,000, a significant 40 percent, because of gains arising from the sale of assets, equity in earnings of unconsolidated subsidiaries and interest on short-term investments of temporary cash surpluses.

People are as essential to Murphy's business as operating facilities



COSTS AND DEDUCTIONS

Consolidated costs and deductions were $372,603,000, compared with $317,484,000 in 1971. They were 96.3 percent of total revenues in 1972, compared to 96.6. Costs of crude oil, products and related operating expenses increased 19 percent from $207,681,000 to $248,129,000. This rise was primarily the result of increased sales volumes, but also reflected increased prices for certain purchased crude oil and most of the items making up the related operating expenses. Costs of crude oil, products and related operating expenses were 76.4 percent of sales revenue in 1972 as against 75.4 percent in 1971.

Drilling barge and other operating expenses were $18,666,000, only slightly higher than the $17,510,000 for 1971, even though the fleet was some larger and the same inflationary pressures affected these expenses. As a percent of drilling rev-

Lower hull of "Ocean Victory" in transit from Black Bayou, Louisiana, to New Orleans for mating with deck structure

enues, barge and other operating expenses were 36.1 percent in 1972 and 39.7 percent in 1971.

Exploration expenses, including $10,605,000 of dry hole and abandonment costs, increased $4,242,000 during the year to $17,637,000. In 1971, dry hole and abandonment costs were $7,855,000. Of the $2,750,000 increase, by far the largest portion resulted from unsuccessful exploration and development drilling in the Gulf of Mexico.

Selling and general expenses were $24,475,000, compared to $22,209,000, a 10-percent increase. Most of this increase is attributable to the increased volume of business and cost increases in transportation, materials and supplies. As a percent of total revenues, selling and general expenses decreased from 6.8 percent to 6.3 percent.

Depreciation and depletion increased 14 percent from $22,501,000 to $25,762,000. Part of this increase was due to increased crude oil and gas liquids production, the rest from additional drilling barges and investments in other property, plant and equipment.

Taxes other than income taxes were $5,316,000, up from $5,039,000 in 1971, a 5-percent increase. Interest expense was $10,764,000, an increase of $1,943,000, 22 percent over 1971. Some of this increase is due to increased rates, but almost all is due to additional borrowings and to some extent it is offset by the increase in interest income. Federal and state income taxes decreased 51 percent from $3,634,000 in 1971 to $1,778,000. This decrease resulted from more contract drilling revenue being earned under the tax jurisdiction of foreign countries. Foreign income taxes were up 19 percent, $2,126,000, from $11,107,000 to $13,233,000. This increase was due not only to more foreign source contract drilling revenue just cited, but also to increased crude oil production in the Persian Gulf and increased tax rates there, in Libya and in Venezuela.

Excise taxes of $132,738,000 were collected from the Company's customers and paid to governmental agencies.

INCOME BY LINES OF BUSINESS

The approximate contribution by lines of business to income before income taxes and extraordinary items was as follows:

	Percent 1972	Percent 1971
Oil, gas and refined products	57	58
Contract drilling	35	38
Timber and agriculture products	8	4

CAPITAL EXPENDITURES

In 1972, capital expenditures were $128,202,000, compared to $66,306,000 spent in 1971. Additions to property, plant and equipment of $117,351,000, an increase of $60,191,000, are detailed in the Statement of Changes in Financial Position. Expenditures of $10,851,000, including $9,561,000 in dry hole costs, were expensed. Dry hole costs for 1971 were $7,254,000.

Expenditures for production and exploration aggregating $46,277,000 are made up of $10,288,000 in inland United States, $28,028,000 in the Gulf of Mexico, $3,653,000 in Canada, $1,700,000 in the Persian Gulf and $2,608,000 in other areas. Inland United States expenditures include $4,462,000 for an interest in the Lake Como Field in Mississippi and an interest in additional wells in the East Texas Field. Expenditures in the Gulf of Mexico include $14,108,000 spent for five blocks at the Federal lease sale in December.

Expenditures for manufacturing facilities totaled $18,758,000, including $14,325,000 for the expansion and modernization at Meraux, Louisiana and $4,433,000 for modernization at Superior, Wisconsin.

Service station and terminal construction, service station remodeling and self-service conversions and other marketing facilities cost $7,842,000. Of this amount, $3,320,000 was spent in the United

States, $2,634,000 in Canada and $1,888,000 in the United Kingdom.

Additions to drilling barges and related equipment totaled $49,813,000. This amount includes funds required to complete the "Ocean Victory" and progress payments on the "Ocean Voyager," "Ocean Scout," "Ocean Rover," "Ocean King" and "Ocean Endeavor" as well as modest amounts for the purchase and refurbishing of the "Ocean 66."

Other significant expenditures were $3,985,000 for the purchase of the ODECO office building in New Orleans, Louisiana and $974,000 for Deltic Farm & Timber Co., Inc. land and timber acquisitions, sawmill additions and timber and farm equipment.

CAPITAL EMPLOYED

On March 1, 1972, Murphy Oil Company Ltd. called for redemption all of the outstanding shares of its 5¾% Cumulative Redeemable Convertible Preferred shares, Series A. As a consequence of the call, 155,358 Preferred shares were tendered for conversion and were converted into 388,395 Common shares. The remaining 892 Preferred shares outstanding were redeemed. Inasmuch as Murphy Oil Corporation did not own any of the Canadian Preferred shares, the Common shares issued on conversion reduced Murphy Oil Corporation's interest in Murphy Oil Company Ltd. from 88 percent to 77 percent.

On August 1, 1972, Ocean Drilling & Exploration Company called for redemption all of its outstanding Cumulative Preferred Stock, 6% Convertible Series. As a result of the call, 500,218 Preferred shares were submitted for conversion into 793,155 shares of Common Stock. Preferred shares converted included 254,526 shares held by Murphy Oil Corporation which were converted into 403,932 shares of Common Stock, thereby maintaining Murphy's 51-percent interest in ODECO's Common Stock. The remaining 197 shares of ODECO Preferred Stock were redeemed.

The Board of Directors called for redemption on December 15 the Company's Cumulative Preference Stock, 5.20% Series. As a result of the redemption call and 4,812 shares converted prior to the call, 170,437 shares of the 5.20% Series were converted to 430,715 shares of Common Stock. The remaining 1,114 outstanding shares will be redeemed.

Working capital at year-end was $67,424,000, a decrease of $15,976,000 during the year. Long-term notes payable, excluding current maturities of $14,523,000, were $128,709,000, an increase of $50,798,000 as the result of additional borrowing, about half by ODECO. Outstanding convertible debentures were $24,848,000, a decrease of $152,000, representing the principal amount of debentures converted into 3,037 shares of Common Stock in 1972.

Stockholders' equity increased $8,985,000 during 1972 to a total of $187,524,000 at year-end. During the year, cash dividends of $1,062,000 were paid on the Preferred and Preference Stock and $3,213,000 was paid on the Common Stock. Treasury stock showed a decrease of $70,000—the cost of 3,600 shares of Common Stock issued as the result of the exercise of employees' options.

Statement Of Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of Murphy Oil Corporation and its significant majority-owned subsidiaries except for an offshore insurance company. Investments in the offshore insurance company, corporate joint ventures and 20 percent or more of the voting stock of companies, if significant, are accounted for by the equity method and are stated at equity in underlying net assets. Other investments are stated at cost.

Due to the changing political climate in foreign areas of operations and the prevalence of currency fluctuations, in 1971 the Company established a reserve for loss from foreign operations by regular charges against income.

Foreign currencies are translated into U. S. dollars as follows: property, plant and equipment, deferred charges, investments and long-term debt at rates prevailing when acquired or incurred; other assets and liabilities at year-end rates; revenues and expenses at average rates during each year except for depreciation, depletion and amortization which are based on the historical cost of the related assets. Gains and losses resulting from currency realignments are charged or credited to the reserve for foreign operations except that a subsidiary capitalizes those amounts related to debt incurred for drilling barge construction and charges or credits all other amounts to income. All translation gains and losses due to normal fluctuations in exchange rates are reflected in income.

The Company amortizes goodwill arising from acquisitions over five to 10 years.

Inventories—Inventories of finished products are stated at the lower of cost (applied on a first-in, first-out basis) or market. Inventories of crude oil in the United States and Canada are stated at market prices. Crude oil inventories located in overseas areas are stated at the lower of average cost or estimated realizable value. Materials and sup-

Stack breaker feeding planer at Deltic's Ola, Arkansas mill

plies are valued at the lower of average cost or estimated value.

Exploration and Development—Geological and geophysical expenditures which result in the acquisition or retention of undeveloped leaseholds are capitalized. If production is obtained, appropriate leasehold costs are transferred to producing oil and gas properties. The cost of that portion of undeveloped leaseholds estimated at the time of acquisition to be nonproductive is amortized over the estimated holding period of the leases. Intangible development costs on productive wells are capitalized for financial reporting purposes, but for Federal income tax purposes all such costs are taken as deductions. Dry hole costs, lease rentals and other exploration expenses are charged against earnings as incurred.

Depreciation and Depletion—Depreciation and depletion of producing oil and gas properties are computed on the unit-of-production method based on estimated recoverable oil and gas reserves for each separate property except for properties located in the Gulf of Mexico. Gulf properties are combined and treated as one property by each company owning such leaseholds. Depletion of timber is based on board feet cut as related to total standing board feet. Depreciation of refining and marketing facilities, drilling barges and related equipment, and other properties is calculated on the composite straight-line method.

Asset Retirements—Disposals or retirements which are extraordinary in nature and amount or which include an entire depreciable or depletable property unit are accounted for by charging or crediting income with the residual cost, adjusted for salvage or other proceeds. Upon disposal or retirement of less than an entire depreciable or depletable unit, the cost of the properties less salvage or other proceeds is charged or credited to the related reserves for depreciation and depletion.

Maintenance and Repairs—Provisions are made for refinery turnarounds and major repairs to drilling barges by charges against current income. Other maintenance and repair costs are charged against earnings as incurred. Renewals and betterments are capitalized.

Interest and Debt Expense—Interest on funds borrowed for the construction of drilling barges is capitalized during construction. Debt expense is deferred and amortized on a straight-line basis over the term of the related debt.

Income Taxes—Provision is made in the accounts to reflect the interperiod allocation of income taxes resulting from certain income and expenses being treated differently for financial reporting purposes than for tax computation purposes. Principal allocation items are accelerated depreciation, amortization of nonproducing leases, provision for major drilling barge repairs and refinery turnarounds and equity in the undistributed but not reinvested earnings of foreign subsidiaries. The flow-through method is used to account for investment tax credit.

Employee Retirement Plans—The Company and its subsidiaries have trusteed retirement plans covering substantially all of their employees. Prior service cost is amortized over varying periods up to 20 years and is funded as it accrues. Gains or losses resulting from changes in actuarial asumptions are spread over 10 years.

Excise Taxes—Taxes collected on the sale of products and remitted to governmental agencies are not included in revenues or costs and deductions.

Earnings Per Share—Net income per Common and Common equivalent share is computed by dividing the weighted average number of Common and Common equivalent shares outstanding during each year into net income applicable to such shares. Common share equivalents include the Company's exercisable options and a warrant which was exercised in 1971. The number of Common equivalent shares is determined by the treasury stock method.

Fully diluted earnings per Common share are computed assuming that the Convertible Debentures issued by a subsidiary and Preference Stock of the Company were converted into Common Stock when such conversion results in dilution. Adjustments are made for Preference dividends, interest and income tax expense.

MURPHY
OIL CORPORATION
and Consolidated Subsidiaries

Statement Of Income

Years Ended December 31, 1972 and 1971

	1972	1971
REVENUES		
Sales	$324,752,000	275,338,000
Drilling and other operating revenues	52,840,000	46,577,000
Interest and other income	9,317,000	6,669,000
Total revenues	386,909,000	328,584,000
COSTS AND DEDUCTIONS		
Crude oil, products and related operating expenses	248,129,000	207,681,000
Drilling barge and other operating expenses	18,666,000	17,510,000
Exploration expenses	17,637,000	13,395,000
Selling and general expenses	24,475,000	22,209,000
Depreciation and depletion	25,762,000	22,501,000
Taxes other than income taxes	5,316,000	5,039,000
Interest expense	10,764,000	8,821,000
Federal and state income taxes	1,778,000	3,634,000
Foreign income taxes	13,233,000	11,107,000
Minority interests' income	6,843,000	5,587,000
Total costs and deductions	372,603,000	317,484,000
INCOME BEFORE EXTRAORDINARY ITEMS	14,306,000	11,100,000
Extraordinary items:		
Provision for losses on disposition of marketing outlets	(1,950,000)	—
Proceeds from claim under contract of affreightment	1,225,000	—
Gain on sale of an interest in exploration acreage less minority interests	697,000	—
NET INCOME	$ 14,278,000	11,100,000
Per Common and Common equivalent share:		
Income before extraordinary items	$2.47	2.01
Net income	2.47	2.01
Per Common share assuming full dilution:		
Income before extraordinary items	2.35	1.95
Net income	2.35	1.95

See statement of accounting policies and notes to financial statements, pages 15 and 21.

MURPHY OIL CORPORATION
and Consolidated Subsidiaries

Balance Sheet

December 31, 1972 and 1971

	1972	1971
ASSETS		
Current assets:		
Cash	$ 15,290,000	20,418,000
Certificates of deposit	43,570,000	60,648,000
Marketable securities, at cost which approximates market	10,426,000	15,697,000
Accounts receivable, less allowance for doubtful accounts of $1,516,000 in 1972 and $1,185,000 in 1971	70,080,000	58,238,000
Inventories:		
Crude oil and raw materials	14,441,000	10,140,000
Finished products	26,177,000	27,681,000
Materials and supplies	5,152,000	4,349,000
Total current assets	185,136,000	197,171,000
Investments, at equity	17,339,000	13,010,000
Other investments and noncurrent receivables	5,942,000	5,530,000
Property, plant and equipment, at cost less reserves	352,015,000	269,283,000
Deferred charges and other assets	7,415,000	7,129,000
	$567,847,000	492,123,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term notes payable	$ 14,523,000	25,949,000
Notes payable	1,928,000	17,220,000
Accounts payable and accrued liabilities	88,706,000	57,265,000
Income taxes	12,555,000	13,337,000
Total current liabilities	117,712,000	113,771,000
Long-term notes payable	128,709,000	77,911,000
Convertible debentures	24,848,000	25,000,000
Deferred and noncurrent income taxes	13,386,000	10,770,000
Reserves for major repairs	2,680,000	3,676,000
Deferred credits and other liabilities	8,168,000	3,668,000
Minority interests in subsidiaries	84,820,000	78,788,000
Stockholders' equity	187,524,000	178,539,000
	$567,847,000	492,123,000

See statement of accounting policies and notes to financial statements, pages 15 and 21.

Notes To Financial Statements

(See page 23 for details of long-term debt)

Assets Employed and Net Income—Geographically— The approximate geographical distribution of assets employed at December 31, 1972 and of net income for 1972 and 1971 was as follows:

	North America	Other Western Hemisphere	Eastern Hemisphere	Total
Assets employed	$382,060,000	19,624,000	166,163,000	567,847,000
Net income: 1972	$ 5,166,000	883,000	8,229,000	14,278,000
1971	$ 4,715,000	1,291,000	5,094,000	11,100,000

The distribution of net income is based on prevailing area market prices. Corporate overhead, Federal income taxes and interest expense have been allocated.

Property, Plant and Equipment—A summary of property, plant and equipment at December 31, 1972 and 1971 follows:

	1972	1971
Production and exploration	$212,711,000	183,903,000
Manufacturing	63,241,000	45,757,000
Marketing	67,250,000	61,815,000
Drilling barges and equipment	158,402,000	111,077,000
Transportation	9,013,000	8,909,000
Farm, timber and other	20,104,000	15,121,000
	530,721,000	426,582,000
Reserves for depreciation, depletion and amortization	178,706,000	157,299,000
	$352,015,000	269,283,000

Income Taxes—Income taxes for 1972 and 1971 after deducting investment tax credits of $472,000 and $186,000, respectively, include the following:

	1972	1971
Federal and state:		
Current	$ 407,000	3,784,000
Deferred and noncurrent	1,371,000	(150,000)
Foreign:		
Current	12,696,000	9,312,000
Deferred and noncurrent	537,000	1,795,000
	$15,011,000	14,741,000

Unused investment credit of approximately $3,515,000 at December 31, 1972, not reflected in the financial statements, is available to reduce taxes in the years 1973 through 1979 subject to carryover limitations.

No Federal or foreign income taxes were provided on permanently reinvested earnings of a domestic subsidiary and certain foreign subsidiaries amounting to $7,196,000 in 1972 and $5,916,000 in 1971. Cumulative amounts of such permanently reinvested earnings at December 31, 1972 were $30,643,000. Of this amount only $9,184,000 would be taxable. Federal or foreign income taxes have been provided on all other undistributed earnings of foreign subsidiaries.

No tax effect was applicable to the extraordinary items.

Employee Retirement, Thrift and Incentive Bonus Plans—Retirement plan costs were $984,000 in 1972 and $800,000 in 1971, including amortization of prior service cost of $142,000 and $153,000, respectively. Unfunded prior service cost is approximately $3,255,000. In December 1972, certain plans were amended to provide for increased retirement benefits. The net effect of these amendments was not significant. Retirement plan funds plus balance sheet accruals were sufficient to cover the actuarial value of vested benefits at December 31, 1971, the date of the most recent computation.

Employees of the Company and certain subsidiaries may participate in thrift plans by contributing up to 5% of their base pay. The cost of these plans was $518,000 in 1972 and $404,000 in 1971.

Two subsidiaries have incentive compensation plans for key employees. Each plan provides for establishing a reserve not to exceed a specified percentage of the amount by which net income (as defined) exceeds 6% of capital employed in the business (as defined). Amounts credited to the reserves were $593,000 in 1972 and $525,000 in 1971. Awards may be paid only in cash under one plan and in cash or treasury stock under the other plan.

Stock Options—Under the Employee Stock Option Plan, adopted in 1955 and discontinued in 1965, options were granted to key employees to purchase shares of the Company's Common Stock at 95% of the market value at the date of grant. The options became exercisable as to 40% of the total shares two years after date of grant with an additional 20% exercisable each year thereafter. They expire after 10 years.

The 1969 Stock Option Plan provides for the granting of options to purchase 75,000 shares of the Company's Common Stock. Both qualified and nonqualified options are issuable to key employees of the Company and its 80%-owned subsidiaries at a price not less than the fair market value on the date of grant. The options are exercisable as to 50% of total shares

Statement Of Stockholders' Equity

Years Ended December 31, 1972 and 1971

	1972	1971
CAPITAL STOCK		
Cumulative Preferred Stock, Series A, 6¼%, par $100, authorized and issued 25,713 shares (30,755 in 1971)	$ 2,571,000	3,075,000
Cumulative Preference Stock, par $100, authorized 400,000 shares; 5.20% Series, issued 171,551 shares	—	17,155,000
Common Stock, par $1.00, authorized 8,000,000 shares, issued 5,794,700 shares (5,360,948 in 1971)	5,795,000	5,361,000
Capital Stock at end of year	8,366,000	25,591,000
CAPITAL IN EXCESS OF PAR VALUE		
Balance at beginning of year	92,811,000	64,139,000
Add:		
Excess of par value of Preference Stock over par value of Common Stock issued on conversion less cost of conversion	16,441,000	2,000
Increase in the Company's share of a subsidiary's capital in excess of par value on conversion of the subsidiary's Preferred Stock	1,100,000	—
Excess of principal amount of a subsidiary's convertible debentures over par value of the Company's Common Stock issued on conversion less unamortized debt expense	145,000	—
Excess of net proceeds over par value of 808,550 shares of Common Stock sold, including 158,550 shares upon exercise of a warrant	—	24,824,000
Increase in the Company's share of a subsidiary's capital in excess of par value arising from the sale of Common Stock by the subsidiary	—	4,067,000
Deduct:		
Excess of cost over proceeds from sale of treasury stock upon exercise of options	3,000	—
Cost of debenture conversion and unamortized debt expense of a subsidiary	—	221,000
Capital in Excess of Par Value at end of year	110,494,000	92,811,000
RETAINED EARNINGS		
Balance at beginning of year	60,384,000	53,559,000
Add net income for the year	14,278,000	11,100,000
Deduct:		
Cash dividends:		
Preferred and Preference Stock	1,062,000	1,100,000
Common Stock—$0.60 a share	3,213,000	2,966,000
Decrease in the Company's share of a subsidiary's retained earnings on conversion of the subsidiary's Preferred Stock	1,539,000	—
Cost of issuance of Preferred Stock by a subsidiary	7,000	209,000
Retained Earnings at end of year	68,841,000	60,384,000
Less treasury stock, 9,010 shares of Common Stock in 1972 and 12,610 shares in 1971, at cost	177,000	247,000
TOTAL STOCKHOLDERS' EQUITY	$187,524,000	178,539,000

See statement of accounting policies and notes to financial statements, pages 15 and 21.

Statement Of Changes In Financial Position

Years Ended December 31, 1972 and 1971

	1972	1971
FUNDS PROVIDED		
Operations:		
Income before extraordinary items	$ 14,306,000	11,100,000
Add noncash charges to income:		
Depreciation, depletion and amortization	30,155,000	25,072,000
Deferred and noncurrent income taxes	1,908,000	1,617,000
Minority interests' income	6,843,000	5,587,000
Other	3,986,000	4,926,000
Funds provided by operations before extraordinary items	57,198,000	48,302,000
Extraordinary items, adjusted for noncash charges of $2,154,000	2,126,000	—
Funds provided by operations	59,324,000	48,302,000
Issuance of Common Stock by the Company on conversion of Preference Stock	16,871,000	—
Issuance of Common Stock by subsidiaries on conversion of Preferred Stock and debentures	15,827,000	9,686,000
Issuance of long-term notes payable	67,448,000	28,778,000
Sale of Common Stock by the Company	—	25,692,000
Sale of Common and Preferred Stock by subsidiaries	—	35,182,000
Other	8,024,000	4,484,000
Total funds provided	167,494,000	152,124,000
FUNDS APPLIED		
Additions to property, plant and equipment:		
Production and exploration	35,426,000	19,246,000
Manufacturing	18,758,000	9,333,000
Marketing	7,842,000	6,451,000
Drilling barges and equipment	49,813,000	16,341,000
Transportation	110,000	3,925,000
Farm, timber and other	5,402,000	1,864,000
Total	117,351,000	57,160,000
Long-term notes paid and currently payable	16,650,000	39,708,000
Preference Stock called for redemption by the Company	17,155,000	—
Preferred Stock and debentures called for redemption by subsidiaries	15,908,000	9,765,000
Dividends	4,275,000	4,066,000
Investments, noncurrent receivables and deferred charges	6,492,000	7,430,000
Other	5,639,000	4,444,000
Total funds applied	183,470,000	122,573,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ (15,976,000)	29,551,000
Changes in working capital:		
Cash, certificates of deposit and marketable securities	$ (27,477,000)	51,600,000
Accounts receivable	11,842,000	986,000
Inventories	3,600,000	4,317,000
Current maturities of long-term notes payable	11,426,000	(14,941,000)
Notes payable	15,292,000	(11,508,000)
Accounts payable and accrued liabilities	(31,441,000)	798,000
Income taxes	782,000	(1,701,000)
	$ (15,976,000)	29,551,000

See statement of accounting policies and notes to financial statements, pages 15 and 21.

three years after date of grant and as to all shares after four years. Qualified and nonqualified options expire after five and 10 years, respectively.

Changes in options outstanding were as follows:

	1955 Plan		1969 Plan	
	Average Price	Number of Shares	Average Price	Number of Shares
Outstanding January 1, 1971	$18.85	6,630	$29.85	45,300
Exercised	18.81	(3,030)	—	—
Outstanding December 31, 1971	18.88	3,600	29.85	45,300
Exercised	18.88	(3,600)	—	—
Outstanding December 31, 1972	—	—	29.85	45,300
Exercisable December 31, 1972			$43.63	9,750

Stockholders' Equity— Certain loan agreements of the Company and the provisions of the Certificate of Incorporation relating to the Cumulative Preferred Stock, Series A, contain, among other things, covenants relating to indebtedness and payment of cash dividends. At December 31, 1972, retained earnings of approximately $17,200,000 were free from the most restrictive of such covenants.

The Cumulative Preferred Stock, Series A, is redeemable at $100 a share at decreasing premiums plus unpaid dividends. The Company must make annual sinking fund payments sufficient to redeem 5,042 shares at par plus unpaid dividends.

On December 15, 1972, the Company's Board of Directors called for redemption its Cumulative Preference Stock, 5.20% Series, at $102 a share plus unpaid dividends.

The 5% Convertible Debentures Due 1989 are convertible into Common Stock of the Company at $50.02 a share. At December 31, 1972, 496,761 shares of the Company's authorized and unissued Common Stock were reserved for issuance upon conversion of the Debentures and 75,000 shares were reserved for issuance under the 1969 Stock Option Plan.

Changes in outstanding shares of capital stock are summarized below:

	Preferred Stock	Preference Stock	Common Stock	Treasury Stock
Issued January 1, 1971	35,797	171,570	4,552,351	15,640
Sale under public offering	—	—	650,000	—
Exercise of warrant	—	—	158,550	—
Redeemed	(5,042)	—	—	—
Converted into Common Stock	—	(19)	47	—
Exercise of stock options	—	—	—	(3,030)
Issued December 31, 1971	30,755	171,551	5,360,948	12,610
Converted into Common Stock	—	(170,437)	430,715	—
Conversion of Debentures	—	—	3,037	—
Redeemed	(5,042)	(1,114)	—	—
Exercise of stock options	—	—	—	(3,600)
Issued December 31, 1972	25,713	—	5,794,700	9,010

Commitments and Contingencies—The Company and its subsidiaries have noncancellable leases on service stations, office space and other facilities. Minimum annual rentals under these leases without reduction for related rental income were $5,676,000 in 1972 and will approximate $5,397,000 in 1973, $5,118,000 in 1974, $4,555,000 in 1975, $3,928,000 in 1976 and $3,816,000 in 1977. The leases generally contain multiple renewal options and leases on service stations provide that the lessee shall pay ad valorem taxes and certain other charges.

At December 31, 1972, commitments for capital expenditures were approximately $52,000,000 and arrangements had been made to borrow approximately $56,000,000. Contingent liabilities under guaranty and pipeline throughput agreements were $6,462,000.

Any additional liability arising from the conversion of long-term debt payable in foreign currencies will be recognized as the principal payments become current. Had all such long-term debt at December 31, 1972 been converted at year-end rates, an additional liability of $2,634,000 would have resulted.

Long-Term Debt December 31, 1972

LONG-TERM NOTES PAYABLE	Current	Long-term
MURPHY OIL CORPORATION		
6¼% due 1973 to 1983	$ 2,400,000	24,000,000
8¼% due 1974 to 1986	—	25,000,000
Payable to foreign bank, 6 7/16%* due 1974	—	3,602,000†
7¼% due 1973	2,654,000†	—
Other due 1973 to 1983	864,000	3,075,000
Total Murphy Oil Corporation	5,918,000	55,677,000
SUBSIDIARIES		
Payable to banks, 6% and 7% due 1973 to 1980	1,936,000	15,416,000
Payable to foreign banks:		
7¾% and 6¼% due 1976 and 1977	—	17,666,000†
8% due 1980	—	15,000,000
Mortgage note, 5½% due 1973 to 1979	731,000†	4,764,000†
7⅜%* due 1974	—	3,920,000
5½% and 6½% due 1973 to 1975	1,312,000†	2,606,000†
5.32% due 1973 to 1976	1,400,000	4,200,000
Mortgage notes, 5½% due 1973 to 1983	342,000	3,677,000
Mortgage note, 7%* due 1973	2,500,000	—
Mortgage note, 7½% due 1973 to 1990	114,000	3,823,000
Other due 1973 to 1993	270,000	1,960,000
Total Subsidiaries	8,605,000	73,032,000
CONSOLIDATED LONG-TERM NOTES PAYABLE	$14,523,000	128,709,000
CONVERTIBLE DEBENTURES—Subsidiary		
5% Convertible Debentures Due 1989		$ 24,848,000

Assets with a depreciated cost of approximately $49,015,000 were pledged to secure certain notes payable at December 31, 1972. Amounts becoming due for the four years after 1973 are: 1974, $19,610,000; 1975, $11,961,000; 1976, $19,954,000; and 1977, $16,925,000.

*Interest rate fluctuates. † Payable in foreign currency.

Accountants' Report

THE BOARD OF DIRECTORS
MURPHY OIL CORPORATION:

We have examined the balance sheet of Murphy Oil Corporation and Consolidated Subsidiaries as of December 31, 1972 and 1971 and the related statements of income and stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above mentioned financial statements present fairly the financial position of Murphy Oil Corporation and Consolidated Subsidiaries at December 31, 1972 and 1971 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Shreveport, Louisiana
March 6, 1973

MURPHY OIL CORPORATION
and Consolidated Subsidiaries

Ten-Year Summary

(Dollars in thousands, except per-share amounts)

Meraux refinery processing area

Market line and storage facilities on the Lone Rock—Kerrobert, Saskatchewan pipeline

	1972	1971
FINANCIAL		
Sales and other revenues:		
Oil, gas and refined products	$316,916	273,921
Drilling revenue	50,783	42,372
Agricultural and timber products	7,836	3,613
Other income	11,374	8,678
Total revenues	386,909	328,584
Income before extraordinary items	14,306	11,100
Per Common and Common equivalent share	2.47	2.01
Net income	14,278	11,100
Per Common and Common equivalent share	2.47	2.01
Cash flow	47,008	38,804
Per Common and Common equivalent share	8.55	7.58
Capital expenditures:		
Production and exploration	46,277	28,442
Manufacturing	18,758	9,333
Marketing	7,842	6,451
Drilling barges and equipment	49,813	16,341
Farm, timber and other	5,512	5,739
Total capital expenditures	128,202	66,306
Funds provided by operations	59,324	48,302
Total assets	567,847	492,123
Working capital	67,424	83,400
Long-term debt	153,557	102,911
Stockholders' equity	187,524	178,539
Cash dividends—Preferred and Preference	1,062	1,100
Common	3,213	2,966
Shares of Common Stock outstanding at year-end (thousands)	5,786	5,348
Common stockholders at year-end	4,833	5,322
Employees at year-end	2,992	3,250
Salaries, wages and benefits	$ 35,874	33,017
PRODUCTION AND EXPLORATION (net)		
Crude oil and gas liquids produced—barrels a day	49,475	44,989
Natural gas produced—MCF a day	66,159	65,105
Wells completed:		
Oil wells	31	24
Gas wells	5	—
Dry holes	24	24
Oil and gas wells owned	800	771
Undeveloped acreage (thousands of acres)	9,292	8,628
MANUFACTURING		
Refinery inputs—barrels a day:		
At Company refineries	72,281	64,043
At other refineries	53,119	50,283
Refining capacity—barrels a day	105,000	68,000
MARKETING		
Products sold—barrels a day:		
Gasoline	74,639	70,232
Distillates	44,843	34,067
Residuals	23,346	20,962
Asphalt	3,770	3,469
Total products sold	146,598	128,730
Branded retail outlets—leased and owned	837	928
others	1,343	1,370

1970	1969	1968	1967	1966	1965	1964	1963
233,467	215,782	182,884	171,706	158,973	142,549	130,887	125,216
35,653	28,541	27,418	24,161	19,557	15,956	12,404	9,258
1,943	2,027	1,518	1,619	1,330	1,203	1,189	1,241
6,501	5,646	2,731	1,701	2,372	1,275	904	790
277,564	251,996	214,551	199,187	182,232	160,983	145,384	136,505
9,337	6,228	7,020	8,786	8,102	6,204	4,159	4,982
1.81	1.10	1.28	1.88	1.82	1.42	1.01	1.22
9,408	6,631	7,918	8,330	8,102	6,204	4,159	4,982
1.83	1.19	1.48	1.77	1.82	1.42	1.01	1.22
33,219	24,909	24,274	23,753	22,383	19,888	16,181	16,315
7.07	5.15	5.18	5.62	5.48	4.95	4.11	4.15
36,909	16,001	19,428	18,655	11,554	18,495	11,097	6,373
3,435	3,617	1,673	1,818	2,524	533	558	293
8,217	7,825	6,223	5,888	4,280	3,226	3,124	2,225
25,683	12,271	3,209	6,803	13,023	10,930	8,391	3,784
6,320	1,607	887	839	281	240	430	110
80,564	41,321	31,420	34,003	31,662	33,424	23,600	12,785
37,595	30,011	30,259	28,238	26,789	22,921	17,558	16,770
399,220	343,914	283,709	267,791	229,035	203,597	174,057	158,998
53,849	69,769	39,727	42,409	34,180	28,566	18,233	20,577
123,605	103,998	64,979	64,856	60,750	54,254	47,503	43,629
142,680	137,549	135,032	130,826	109,032	103,551	85,116	83,231
1,124	1,134	1,432	1,198	998	686	254	263
2,722	2,730	2,466	1,974	1,938	1,936	1,935	1,931
4,537	4,547	4,549	3,990	3,876	3,876	3,871	3,863
5,348	5,203	5,208	4,980	5,228	4,973	5,417	5,220
3,292	3,635	3,662	3,873	3,634	3,879	3,585	3,418
29,396	27,020	24,504	23,881	21,347	18,650	16,357	15,300
43,197	37,448	22,973	20,241	19,581	18,407	15,914	15,337
61,710	60,334	55,445	51,679	49,556	51,581	56,461	58,208
12	5	15	26	29	37	36	28
3	4	3	3	2	3	5	4
17	25	20	18	35	32	14	17
580	588	597	619	602	592	548	484
7,476	3,713	2,657	2,436	2,339	2,965	3,709	2,247
59,573	56,590	51,790	48,142	45,411	41,169	39,164	38,581
37,897	33,805	26,473	12,858	10,630	7,672	4,011	4,000
68,000	60,000	55,000	50,000	47,000	44,000	43,000	43,000
63,068	55,799	46,279	43,137	38,808	33,052	29,639	25,666
31,466	29,637	25,497	20,608	18,825	17,471	14,355	16,975
19,093	15,818	13,470	11,781	10,701	10,205	12,825	11,699
2,659	3,180	2,790	2,597	2,019	1,123	1,082	773
116,286	104,434	88,036	78,123	70,353	61,851	57,901	55,113
871	942	928	833	779	735	681	636
1,305	1,332	1,103	995	665	598	470	337

MURPHY
OIL CORPORATION
and Consolidated Subsidiaries

BOARD OF DIRECTORS

*C. H. Murphy Jr. (1950)
Chairman of the Board

*R. J. Sweeney Jr. (1972)
President

*J. A. O'Connor Jr. (1955)
Chairman of the Executive Committee

*Charles J. Hoke (1950)
Senior Vice President

*William C. Nolan (1950)
El Dorado, Arkansas
Partner, Munoco Company

Charles E. Cowger (1968)
Senior Vice President

Dr. John W. Deming (1950)
Alexandria, Louisiana
Physician

Vester T. Hughes Jr. (1973)
Dallas, Texas
Partner, Jackson, Walker, Winstead, Cantwell & Miller

F. B. Ingram (1961)
New Orleans, Louisiana
Chairman of the Board, Ingram Corporation

James R. Jones (1968)
Controller

The Rt. Rev. Christoph Keller Jr. (1950)
Little Rock, Arkansas
Bishop, Episcopal Diocese of Arkansas

Ralph Owen (1960)
Nashville, Tennessee
Formerly Chairman of American Express Company

*Member of the Executive Committee
(Year of election to the Board indicated in parentheses)

OFFICERS

C. H. Murphy Jr., *Chairman of the Board*
R. J. Sweeney Jr., *President*
J. A. O'Connor Jr., *Chairman of the Executive Committee*
Charles J. Hoke, *Senior Vice President*
Charles E. Cowger, *Senior Vice President*
John L. Solomon, *Vice President*
Paul C. Bilger, *Vice President*
Ben S. Smith Jr., *Vice President*
O. Paul Doyle, *Vice President*
James R. Jones, *Controller*
B. David Richardson, *Treasurer*
Jerry W. Watkins, *Secretary and General Counsel*

TRANSFER AGENTS AND REGISTRARS

Common Stock
Transfer Agents
Chemical Bank, New York
Mercantile Trust Company, N. A., St. Louis

Registrars
Morgan Guaranty Trust Company of New York, New York
St. Louis Union Trust Company, St. Louis

Cumulative Preferred Stock, Series A
Transfer Agent and Registrar
Murphy Oil Corporation, El Dorado, Arkansas

AUDITORS

Peat, Marwick, Mitchell & Co., Shreveport, Louisiana

PRINCIPAL SUBSIDIARY COMPANIES

Deltic Farm & Timber Co., Inc. (100%)
Farm and timber properties in Arkansas and Louisiana and sawmill operations

Murphy Eastern Oil Company (100%)
Coordination of the Company's activities in Europe, Africa and the Middle East

Murphy Oil Company Ltd. (77%)
Exploration for and production of crude oil and natural gas and retail and wholesale marketing of petroleum products in Canada

Murphy Oil International Finance Corporation (100%)
Financing of capital requirements of foreign operations

Murphy Oil Trading Company (100%)
Purchase, sale and transportation of crude oil and refined petroleum products

Murphy Oil Venezolano, C. A. (100%)
Exploration for and production of crude oil and natural gas in Venezuela

Ocean Drilling & Exploration Company (51%)
Drilling contracting and exploration on continental shelves worldwide—Oil and gas production in the Gulf of Mexico

Annual Meeting

The annual meeting of the stockholders of the Company will be held May 2, 1973 at the South Arkansas Arts Center, El Dorado, Arkansas

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El Dorado, Arkansas 71730